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United Nations Office for Project Services

UNOPS: Report on the implementation of recommendations of the Board of Auditors for the biennium 2004-2005*

Summary

United Nations Office for Project Services (UNOPS) is pleased to respond to the recommendations noted in the report of the Board of Auditors for the biennium ended 31 December 2005.

This response provides a summary of the management plan that addresses the recommendations contained in the report of the Board of Auditors.

The Executive Board may wish to take note of the report on the implementation of the recommendations of the United Nations Board of Auditors for the biennium 2004-2005.

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* The compilation of data necessary to provide the Executive Board with the most current information has delayed submission of the present document.

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I. UNOPS summary response to the United Nations Board of Auditors

A. Background

1. As a self-financing service provider to the United Nations system and other donor organizations, UNOPS management adheres to its mandate and is working to implement systems to ensure that it reaches its goal of becoming a world-class organization. In so doing, UNOPS management appreciates the requirement that the organization remain efficient, nimble, and flexible in order to respond to the needs of its clients, which can rapidly expand or contract according to world events. UNOPS must maintain sound internal control systems and ensure that its financial house is in order, managing itself as an efficient business from the top of the organization to the ground floor, including its bottom line and operational reserve.

2. The recommendations highlighted in the report of the United Nations Board of Auditors (BOA) for the 2004-2005 biennium provide UNOPS management with an outline for improving its internal controls and financial systems. UNOPS is pleased to respond herein with specific management responses to those recommendations. Further, the broader report reflects major improvements made during the biennium ended 31 December 2005, when compared to the report for the biennium ended 31 December 2003. While there remains one qualification with respect to UNOPS interfund balance with UNDP, there are no disclaimers for the 2004-2005 biennium. This reflects significant positive steps forward, but much remains to be completed in the current biennium (2006-2007). The members of UNOPS senior management team, most of which is newly appointed, are absolutely committed to improving the financial systems of the organization to ensure that UNOPS is financially sound and is operated as an efficient provider of top-quality services. The 2006-2007 biennium required investment in infrastructure to address the problems experienced in prior years and ensure that fundamental systemic operational flaws are fixed at the core.

B. Investing in the future of UNOPS

3. During the first 18 months of the current biennium, UNOPS focused sharply on cleaning up internal weaknesses while simultaneously investing in an improved infrastructure to ensure that UNOPS remains a productive going concern over the long term. While this was a daunting task, significant fundamental initiatives are well under way. The benefits of the investments are being realized and improvements shall be visible and measurable before the close of the biennium ending 31 December 2007.

4. The remainder of this chapter summarizes major initiatives undertaken during the current biennium.

5. *New senior management team.* In mid-2006, a new Executive Director, and Deputy Director joined UNOPS and immediately began building a new senior management team comprising several new regional directors, a Director for Organizational Effectiveness and Human Resources and a new Director of Finance. The members of the senior management team strengthened each of their teams, in turn, hiring key people to help the organization improve and move rapidly towards achieving its goals.

6. *Relocation of headquarters office.* UNOPS successfully moved its corporate headquarters from New York (Chrysler Building) to Copenhagen. Most of the move occurred during the second half of 2006, with the Finance Office moving early in 2007. Tangible benefits such as lower overall operating costs and more convenient and efficient travel to our client locations will be realized over the longer term. UNOPS is also strengthened by the intangible benefits of entering this new phase with a new location for the largely new team, with a fresh new start and an evident boost to morale and teamwork environment.

7. *Financial cleanup.* The new senior management team took seriously its goal of cleaning up accounting problems, many dating back several years, and moving forward with a clean slate. Following audit and internal control weaknesses highlighted in the financial report for the 2002-2003 biennium, UNOPS undertook a massive accounting cleansing exercise during the second half of 2006, retrieving and correcting accounting information from prior years. UNOPS employed a 'Big 4' accounting firm during that time to assist with reconciliations of major problem accounts, including the interfund account with UNDP. All in all, UNOPS invested approximately $2 million toward the clean-up effort, inclusive of costs paid for external assistance. That comprehensive process helped UNOPS prepare more effectively for the BOA audit of the 2004-2005 biennium, and positioned the organization to improve systems and strengthen internal controls during the 2006-2007 biennium.

8. *Organizational restructuring.* During 2006, the UNOPS senior management team reorganized primary headquarters functions to ensure: (a) more effective workflow and operational efficiency; and (b) strengthening of corporate internal controls and risk mitigation. Specifically, the headquarters infrastructure now consists of the Executive Office, the Corporate Controls Centre, the Global Services Centre, and the Organizational Effectiveness Centre. The Executive Office comprises the Executive Director, the Deputy Executive Director, and the Communications function. The Corporate Controls Centre comprises the Director of Finance and team, the General Counsel, the Head of Security, and the Head of Audit — together, that team serves the Executive Office and UNOPS in maintaining strong internal controls, managing organizational risks, and ensuring compliance with regulations. The Global Services Centre functions as an internal transactional service provider, inclusive of information technology, recruitment, benefits and entitlement administration, procurement, and other transactional activities that benefit the broader UNOPS organization. The Organizational Effectiveness Centre supports and manages the development and improvement of the internal business processes and policy implementation that form the backbone of the of the UNOPS infrastructure. Moreover, the Centre focuses on UNOPS corporate business strategy and leads the organization in setting its business development objectives. Together, the three centres form an integrated team that helps the Executive Office and the regional offices manage its business operations and ensure that the organization continues to achieve its financial, strategic, and compliance-related goals.

9. *Investment in a professional-level finance team.* In 2007 UNOPS aggressively recruited and hired senior finance professionals to manage its accounting and finance functions worldwide. The majority of the finance positions in UNOPS headquarters were abolished, and positions were upgraded and aligned with the UNOPS mission of becoming a world-class service provider at every level. The new Director of Finance, who joined UNOPS in early 2007, has nearly completed

staffing a largely new finance team at headquarters in Copenhagen, and within the regional and country offices of UNOPS. The new team is structured to accomplish several major objectives, which include: (a) higher-level accountants with broader and more relevant skills to manage the finance function rather than provide clerical accounting services; (b) clear lines of authority within the finance structure to ensure efficiency and strong internal controls (regional finance officers report directly to the Controller at headquarters while providing financial support services in the field); (c) centralization of policy development, regulatory compliance, and financial oversight with a small team of senior international staff in headquarters; and (d) decentralization of transactional activity and hands on accounting within the Atlas system at the point of transaction in the field offices, staffed with a senior international staff person such as the regional finance officer and an increased number of skilled national finance officers performing tasks in country offices. Overall, the result is a modest increase in costs invested in the finance infrastructure, with a significant increase in the quality of headquarters staff as well as in the quantity and quality of the many finance officers in the regional and country offices.

10. *Decentralization of functional accounting activity.* The great majority of UNOPS transactions occur in regional and country offices. Historically, those costs were ultimately recorded at UNOPS headquarters, after a significant delay. For instance, cash for most transactions through the imprest accounts in offices at the project level was disbursed in the field, but later recorded in the Atlas system by a team of clerical staff at headquarters. That process was inefficient, lacked proper data integrity and internal control oversight, and resulted in delayed and partially inaccurate client reporting. The UNOPS finance team is decentralizing this process almost in its entirety during 2007, requiring that transactional activity in the field fully utilize the Atlas accounting system at all sites where it is feasible. This will provide internal controls at the point of the transaction and ensure that data is entered in a timely manner. The end result will be faster, cleaner financial reporting to our clients and a major improvement in internal controls at the regional and country levels. The finance team has endeavoured to eliminate 80 per cent of the 2005-2006 level of imprest accounting activity by the close of the 2006-2007 Biennium. It is anticipated that 20 per cent of transactions will still require the use of imprest accounts due to logistical or connectivity constraints. Further, client reporting will also eventually be produced in the regional headquarters offices so that the finance team is able to coordinate closely with clients. These objectives require UNOPS-wide Atlas training for finance professionals, and optimization of business processes throughout the organization, all of which is under way in 2007.

11. *Internal audit function.* In 2007 UNOPS formed an internal audit function, led by the Head of Audit and supported by a team of internal auditors. That function had previously been outsourced to a team of dedicated auditors at UNDP. The change to an internal audit approach reflects the maturation of UNOPS as an organization and addresses the need to provide enhanced audit services within UNOPS, including more frequent project and regional office audits and more robust internal compliance reviews throughout the organization. The internal audit team are UNOPS staff, who will be a more visible and accessible presence, resulting in increased awareness of the compliance function and regulatory requirements on the part of UNOPS staff. The Head of Audit reports directly to the Executive Director and occupies a key seat within the Corporate Controls Centre.

12. *Audit and advisory committee.* The Executive Office and leaders within the Corporate Controls Centre have created a charter and are actively recruiting external members of the soon-to-be-formed audit and advisory committee. The committee is expected to become active in September 2007. Comprising 100 per cent external membership, the committee will provide guidance and oversight of UNOPS audit function and ensure that the organization employs sound risk management practices. The committee shall meet at least quarterly and will monitor the timely completion of the compliance objectives set by the Executive Director and United Nations regulatory requirements such as implementation of the International Public Sector Accounting Standards (IPSAS).

13. *Implementation of sound business practices.* During the 2006-2007 biennium, UNOPS senior management is updating and implementing best practices at all levels within the organization to improve efficiency, oversight, and sound project management. Examples include: (a) a new pricing policy that will ensure full cost recovery on client engagements, maintain a competitive position in the UNOPS marketplace, and replenish the operational reserve in a reasonable time frame; (b) strengthening and streamlining of internal committees such as the assignment and promotions board (recruitment oversight) and the procurement approval committees; (c) induction training programmes for new core staff; (d) installation of business processes to optimize the Atlas system as the nucleus of UNOPS business transactional and reporting activities; (e) IPSAS readiness and participation in the cross-agency implementation working groups; (f) updating and upgrading of UNOPS internal control framework and policies and procedures manuals for procurement and key finance processes; (g) utilizing formal staff attitude surveys to ensure that UNOPS senior management is aware of the underlying attributes for success noted by staff; and (h) creation of a 'business' culture in which the UNOPS mandate as an efficient, self-financing service provider is constantly reinforced and objectives are shared throughout the organization.

14. *One UNOPS within "One UN".* The UNOPS Executive Office and senior management team are becoming increasingly more cohesive and are sharing responsibility for achieving organizational objectives in ways that did not exist in prior years. Competitiveness within work groups is no longer tolerated, and the headquarters and regional offices are on the path to full integration. The new leadership has arrived, the mandate is clear, the objectives have been set, and the management team has been formed. The tasks are lofty in scope, and the resources are scarce, but the improvements set in the blueprint above, and the recommendations noted in the BOA audit report are achievable in the near term and maintainable for the longer term.

II. UNOPS responses to the main recommendations of the United Nations Board of Auditors

15. BOA provided 33 main recommendations in the body of the Financial Report and Audited Financial Statements, Chapter 2, Section 2.10, (a) to (gg). The report offers specific responses to all 33 main recommendations, however, below is a supplemental response to the broader strategic recommendations that UNOPS senior management is addressing as its highest priority. Those recommendations include

(a), (b), (c), (k), (n), (o), (t), (aa) and (dd), as noted below, with UNOPS comments as indicated.

16. The main recommendations (see note above) are that UNOPS:

Supplement its strategic review action plan by formulating and implementing a long-term operational and financial recovery plan (a)

17. UNOPS agrees enthusiastically with this recommendation and has taken steps to ensure that the corporate strategy ensures that financial recovery becomes a reality, and that the organization maintains a clear mandate to operate as a healthy, financially sound, going concern. UNOPS mission to provide service to its clients is indeed a noble one, and it is the responsibility of UNOPS management to ensure that proper execution of this mission is never threatened due to financial difficulties, both current and those unforeseen that need to be accounted for in an operational reserve. As stated in chapter I, above, UNOPS efforts are noted in their commitment to ensure that internal controls are in place, that a new professional finance team is on board, and that sound financial management processes are being implemented across the organization. The financial plan is being reassessed to ensure that it is realistic, and it clearly highlights the financial aspects that align with the strategic plan for the organization.

Take steps to fund its operational reserve to the specified level in a timely manner (b)

18. UNOPS recognizes the importance of maintaining an adequate operational reserve. During the interim period 2006 (unaudited), UNOPS produced a contribution of $8.9 million to the existing reserve, bringing it to $13.2 million at the close of 2006. This is significantly below the mandated level of 4 per cent of a rolling, 3-year average delivery, which is approximately $30 million at current delivery levels. UNOPS recognizes the need to replenish the reserve to mandated levels and plans to do so within 3 years (by the close of 2009), at which point the targeted reserve will rise, due to likely growth of delivery totals. While UNOPS could potentially replenish the reserve at a faster rate, it is strategically and fundamentally more important for the organization to make necessary investments in infrastructure in the short run, so as to be able to maintain financial stability for the long run. Those investments in infrastructure are identified in chapter I, above.

Improve its financial statement preparation process, and submit certified financial statements for audit in a timely manner (c)

19. UNOPS agrees that this is a very high priority. UNOPS financial and accounting systems are being re-evaluated and business process improvements implemented. During 2008, UNOPS management anticipates clean quarterly closes and timely financial reporting, so that UNOPS leadership can monitor the financial position on a close to real-time basis. Cost recovery, in accordance with the pricing policy strategy, will be re-evaluated semi-annually to ensure that UNOPS is pricing its projects adequately to cover costs and contribute to the operational reserve. The benefits of UNOPS system improvements will enable the Office of Finance to submit timely, accurate, and reliable financial reports to BOA, resulting in more efficient, productive audits in the future.

Review processes regarding imprest accounts (k)

20. This is the highest priority of the UNOPS Office of Finance for 2007. As noted in chapter I, above, the desired outcome is that 80 per cent of UNOPS imprest accounts be eliminated and that the accounting staff make optimal use of Atlas at regional and country offices. The UNOPS Executive Office and regional senior management are working with the Office of Finance and the Organizational Effectiveness Centre to ensure a successful transition. UNOPS is working concertedly toward this objective and has dedicated the resources to ensure that the process is completed successfully and a timely fashion. The goal is an 80 per cent reduction of imprest accounts by the close of 2007, a lofty goal, but nonetheless extremely important.

Reassess the recoverability of the UNDP debt of $9.9 million; assess the adequacy of the $5 million provision for write-off; and ensure that all interfund reconciliations are performed regularly (n)

21. UNOPS is pleased that the interfund balance has been reduced to $9.9 million, given the previous scale of the unreconciled fund. While UNOPS has invested significantly in the reconciliations up to this point, it acknowledges that the interfund, going forward, must be reconciled frequently with UNDP. This is a team effort, and one that UNOPS willingly undertakes in 2007. However, UNOPS believes that further investment in reconciling the prior year balance of $9.9 million would prove to be unwarranted, as the cost of further efforts would be prohibitive and not likely to produce additional positive results. Therefore, UNOPS will work closely with UNDP to settle the $9.9 million well before the close of 2007. UNOPS is also encouraged by paragraph. 5 of Executive Board decision 2007/27, which reads as follows: "5. *Requests* UNDP and UNOPS to give priority to the reconciliation of outstanding issues in the UNDP/UNOPS interfund account."

22. Regarding the adequacy of the $5 million provision, UNOPS is confident that that figure is reliable, as it reflects a reasonable pro rata share of the portion of the interfund that UNOPS and UNDP had previously reconciled to bring the total down to the current $9.9 million. UNOPS intends to work amicably and productively with UNDP to settle the amount as a matter of the highest priority.

Evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs are identified and recovered, and implement a system that addresses shortcomings identified in the existing workload system, and consider the feasibility of using a fixed minimum margin to be able to control fluctuations in cost recovery rates, while ensuring that UNOPS remains cost effective (o)

23. All the facets of this recommendation are being considered carefully, and an implementation plan is under way. A draft pricing policy and a realistic detailed financial budget have been produced. Implementation of the final pricing policy is almost complete, for the biennium beginning 1 January 2008. It will also be used as a tool to understand and shape the pricing strategy as fluctuations in the business base may dictate. UNOPS will be proactive in adjusting the cost recovery strategy by carefully anticipating business trends, monitoring actual results in a timely fashion, and making the appropriate adjustments.

Implement controls over project budgets to ensure that proper monthly reviews of project budgets and expenditures are completed (t)

24. UNOPS agrees wholeheartedly with this recommendation, which is essential to its success as a project management organization. Unfortunately, historically untimely reporting due to delay factors (such as imprest accounting, unreliable data, and inefficient business processes) has adversely affected UNOPS ability to manage expenditures versus budgets in a proactive manner. Thus, the system improvements noted in chapter I, above, are being implemented towards the end result that UNOPS project managers, senior management, and all end users of our reports (clients, the Executive Office, and others) receive timely, accurate reports on a monthly basis. That end result will enable UNOPS to improve its reputation with clients as well as ensure that projects are managed effectively and cost overruns are eliminated completely. UNOPS expects to achieve significant progress toward this goal during first and second quarters of 2008, subsequent to successful completion of the previously noted business process improvements.

Develop a risk-based internal audit plan to provide assurance to the organization on financial procedures, and take steps to implement the formation of an audit committee (aa)

25. As described above in Chapter I, paragraphs 11 and 12, UNOPS has created an internal audit function and is forming an external audit and advisory committee. Those two important initiatives will add an extra layer of internal control that will closely monitor UNOPS progress.

Perform regular physical asset counts to verify the existence of assets an the completeness and accuracy of the asset records and obtain confirmation from the storage company of all inventory items kept in storage (dd)

26. UNOPS Office of Finance and Office of Organizational Effectiveness are working on this objective, as a matter of priority as part of the broader initiative to re-evaluate internal processes and update accordingly. Physical inventory processes have been underway throughout UNOPS, and an asset management policy is being spearheaded by a dedicated committee. In conjunction with the implementation of IPSAS, this recommendation is a matter of priority, and one which will provide greater assurances that UNOPS has control of its physical assets, and those of the clients.

III. Conclusion

27. UNOPS is pleased to have the opportunity to provide a response to the BOA report for the biennium ended 31 December 2005. UNOPS looks forward to working closely with its Office of Internal Audit, the soon to be formed audit and advisory committee, BOA, and all UNOPS staff to ensure that the objectives and recommendations are addressed and a successful outcome is achieved.